

LOESS HILLS AREA EDUCATION AGENCY 13

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2007

CONTENTS

OFFICIALS		1
AREA SERVED		2
INDEPENDENT AUDITOR'S REPORT		3-4
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		5-12
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13-14
Statement of Activities	B	15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Notes to Financial Statements		23-32
REQUIRED SUPPLEMENTARY INFORMATION		
Statement of Revenues, Expenditures/Expenses and Changes in Balances – Budget and Actual – All Governmental Funds and Proprietary Fund		33
Note to Required Supplementary Information – Budgetary Reporting		34
SUPPLEMENTAL SCHEDULES	<u>Schedule</u>	
Revenue by Source – All Governmental Fund Types, for the Last Five Years	1	35
Expenditures by Function – All Governmental Fund Types, for the Last Five Years	2	36
Changes in Assets and Liabilities – Fiduciary Fund Type – Agency Fund	3	37
Department of Public Health Grants	4	38
Department of Human Services Grants	5	39

CONTENTS
(Continued)

SINGLE AUDIT REPORTS AND RELATED SCHEDULE	<u>Schedule</u>	
Supplementary Schedule of Expenditures of Federal Awards	6	40-41
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		42-43
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133		44-45
SCHEDULE OF FINDINGS AND QUESTIONED COSTS		46-47

LOESS HILLS AREA EDUCATION AGENCY 13

**OFFICIALS
June 30, 2007**

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Karen Thomsen	Member	2008
Kenneth Lee	Member	2009
Randy Brown	Member	2007
Richard Schenck	Member	2008
Nancy Coziahr	Member	2007
Martin Pennock	Chairperson	2009
Marland Gammon	Vice Chairperson	2007
Kenneth Peterson	Member	2008
Charles Watson	Member	2009
Agency		
Glenn Grove	Administrator	Indefinite
Linda Perdue	Board Secretary/ Administrative Assistant	Indefinite
Emily Nelson	Board Treasurer/Director, Administrative Services	Indefinite

LOESS HILLS AREA EDUCATION AGENCY 13

AREA SERVED

June 30, 2007

<i>COUNTY</i>	<i>COMMUNITY SCHOOL DISTRICT</i>	<i>INDEPENDENT SCHOOL</i>
Cass	Anita Atlantic C & M Griswold	
Fremont	Farragut Fremont-Mills Hamburg Sidney	
Harrison	Boyer Valley Logan-Magnolia Missouri Valley West Harrison Woodbine	St. Patrick's School
Mills	Glenwood Malvern Nishna Valley	
Page	Clarinda Essex Shenandoah South Page	Clarinda Lutheran Schools
Pottawattamie	A-H-S-T Council Bluffs Lewis Central Riverside Treyner Tri-Center Underwood Walnut	Loess Hills Christian School Council Bluffs Catholic Schools St. Joseph's Element- ary School
Shelby	Elk Horn-Kimballton Harlan Irwin-Kirkman/Manilla	St. Michael's Center St. Joseph's Center St. Mary's Center



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Loess Hills Area Education Agency 13
Council Bluffs, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Loess Hills Area Education Agency 13 (the "Agency") as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Loess Hills Area Education Agency 13 at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 26, 2007, on our consideration of Loess Hills Area Education Agency 13's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standard's Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Loess Hills Area Education Agency 13's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 26, 2007

LOESS HILLS AREA EDUCATION AGENCY 13

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Loess Hills Area Education Agency 13 (the "Agency") provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$21,805,818 in fiscal year 2006 to \$23,650,745 in fiscal year 2007, while General Fund expenditures increased from \$21,855,293 in fiscal year 2006 to \$23,358,448 in fiscal year 2007. This resulted in an increase in the Agency's General Fund balance from \$793,778 in fiscal year 2006 to \$1,111,082 in fiscal year 2007, a 40 % increase from the prior year.
- The increase in General Fund revenues was attributable predominately to 1) an increase in state grant revenue, 2) state aid and property tax revenues, and 3) revenues generated for local projects. The increase in expenditures was due primarily to 1) increases in state grants and local projects and 2) general increases throughout Agency programs. The General Fund balance increased because revenue exceeded expenditures and caused the Fund Balance to increase.
- The Iowa Legislature has reduced controlled funding to the AEAs over the last several years. Some of these funds were restored in 2006/07, and this did help the Agency financially. However, continued restoration is necessary for the Agency to provide critical services to children and schools and to reach and stay in good financial health.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of the Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statements

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Property tax, federal grants and state aid finance most of these activities.
- *Business-type activities:* The Agency charges fees for vending machine operations.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (continued)

The Agency has two kinds of funds:

- *Governmental Funds* account for most of the Agency's basic services. These funds focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include the General Fund and the Special Revenue Fund.

The required governmental funds financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- *Proprietary Funds* account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the Government-wide statements. The Agency's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The Agency currently has one enterprise fund, which includes vending machine operations.

The required proprietary funds financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

A summary reconciliation between the Government-wide financial statements and the fund financial statements follows the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The Agency's net assets at the end of fiscal year 2007 totaled approximately \$3.1 million. This compared to approximately \$2.7 million at the end of fiscal year 2006. The analysis that follows provides a summary of the Agency's net assets at June 30, 2007 for the governmental and business-type activities.

The Agency's combined net assets for fiscal year 2007 increased by approximately 14.2% or \$.4 million from fiscal year 2006.

Condensed Statement of Net Assets (Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 7,633	\$ 7,000	\$ 8	\$ 10	\$ 7,641	\$ 7,010
Capital assets	2,175	2,198	-	-	2,175	2,198
Total assets	9,808	9,198	8	10	9,816	9,208
Long-term obligations	164	260	-	-	164	260
Other liabilities	6,522	6,207	1	1	6,523	6,208
Total liabilities	6,686	6,467	1	1	6,687	6,468
Net assets:						
Invested in capital						
assets, net of debt	2,175	2,198	-	-	2,175	2,198
Restricted	232	163	-	-	232	163
Unrestricted	715	370	7	9	722	379
Total net assets	\$ 3,122	\$ 2,731	\$ 7	\$ 9	\$ 3,129	\$ 2,740

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The following analysis shows the changes in net assets for the year ended June 30, 2007:

		Changes in Net Assets (Expressed in Thousands)										
		Governmental Activities		Business-Type Activities		Total						
		Year Ended June 30,		Year Ended June 30,		Year Ended June 30,						
		2007	2006	2007	2006	2007	2006					
Revenues:												
Program revenues:												
Charges for service	\$	1,069	\$	1,032	\$	7	\$	7	\$	1,076	\$	1,039
Operating grants and contributions		13,026		11,829		-		-		13,026		11,829
General revenues:												
Property taxes		4,347		4,216		-		-		4,347		4,216
State aid		5,203		4,728		-		-		5,203		4,728
Juvenile home reimbursement		387		412		-		-		387		412
Unrestricted investment earnings		239		199		-		-		239		199
Total revenues		24,271		22,416		7		7		24,278		22,423
Program expenses:												
Instruction		4,052		4,022		-		-		4,052		4,022
Student support services		8,120		7,720		-		-		8,120		7,720
Instructional staff support services		4,702		3,693		-		-		4,702		3,693
General administration		2,505		2,527		-		-		2,505		2,527
Business administration		584		644		-		-		584		644
Plant operations and maintenance		756		739		-		-		756		739
Central and other support services		1,490		1,386		-		-		1,490		1,386
Pass Through to LEAs		1,671		1,690		-		-		1,671		1,690
Non-instructional programs		-		-		9		9		9		9
Total program expenses		23,880		22,421		9		9		23,889		22,430

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

	Changes in Net Assets (Continued) (Expressed in Thousands)					
	Governmental		Business-Type		Total	
	Activities		Activities			
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2007	2006	2007	2006	2007	2006
Total expenses	\$ 23,880	\$ 22,421	\$ 9	\$ 9	\$ 23,889	\$ 22,430
 Increase (Decrease) in net assets	 391	 (5)	 (2)	 (2)	 389	 (7)
 Net assets beginning of year	 2,731	 2,736	 9	 11	 2,740	 2,747
 Net assets end of year	 \$ 3,122	 \$ 2,731	 \$ 7	 \$ 9	 \$ 3,129	 \$ 2,740

Operating grants and contributions from local, state and federal sources account for 53.7% of the total governmental activities revenue while general revenues account for 41.9%. The Agency's expenses primarily relate to instruction and support services, which account for 70.7% of the total governmental activities expenses. This percentage has increased slightly from 2005/06 and relates to grant activity.

Governmental Activities

Revenues for governmental activities were \$24,270,797 and expenses were \$23,879,889. Both Unrestricted Net Assets and Restricted Net Assets increased. Net Capital Assets showed a slight decline.

Business-Type Activities

Revenues of the Agency's business-type activities were \$7,016 and expenses were \$8,886. The Agency's business-type activities are vending machines operations. The reduction in balance was planned. Revenues are from funds received from vending machine sales. Expenses are for payment of items purchased for resale in vending machines.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INDIVIDUAL FUND ANALYSIS

As previously noted, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$1,111,082, which is \$317,304 higher than last year's ending fund balances of \$793,778. The primary reasons for this increase in combined fund balances in fiscal year 2007 was due to revenues exceeding expenditures and an increase in Reserved Fund Balances, primarily prepaid expenses.

Governmental Fund Highlights

- The Agency's increasing General Fund financial position is due to an increase in both the reserved and unreserved fund balances. The Agency was able to improve its financial position in 2006/07.
- The General Fund balance increased from \$793,778 to \$1,111,082 due to an increase in reserved and unreserved fund balances.

Proprietary Fund Highlights

- Proprietary Fund net assets decreased from \$9,401 at June 30, 2006 to \$7,531 at June 30, 2007, representing a decrease of approximately 19.9%. The Agency has planned to reduce this balance through vending machine operations.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with new grants and other information such as salary increases for staff, which were not available when the original budget was adopted. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the Agency had invested \$2,174,718, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, a media collection, vehicles and copy machines. This is a net decrease of approximately \$22,791 from last year. This year's decrease was primarily due to depreciation.

The Agency had depreciation expense of \$290,744 in fiscal year 2007 and total accumulated depreciation of \$2,427,980 at June 30, 2007. More detailed information about capital assets is available in Note 3 to the financial statements.

Long-term Debt

At June 30, 2007, the Agency had \$163,969 in long-term liabilities outstanding compared to \$260,364 at the end of fiscal year 2006. More detailed information about the Agency's long-term liabilities is available in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of several existing circumstances that could significantly affect its financial health in the future:

- The Agency has experienced an annual decrease in the number of students enrolled in local districts for the past several years. That decrease is expected to continue, and decreased enrollment means decreased funding from the state.
- Over the past several years the Legislature has reduced the Agency's controlled funding. Some of the funds were restored in fiscal year 2006/07. Another restoration of \$173,459 is expected in 2007/08. However, the loss of funds over the last several years and the uncertainty of ever receiving full restoration has impacted and will continue to impact services to children and schools.
- The Agency has been notified to expect little to no increase in Federal IDEA funding for the immediate future.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Administrative Services, Loess Hills Area Education Agency 13, PO Box 1109, Council Bluffs, Iowa 51502.

LOESS HILLS AREA EDUCATION AGENCY 13

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,662,964	\$ 8,138	\$ 1,671,102
Unamortized premium on investments	5,363	-	5,363
Receivables:			
Accounts	125,621	-	125,621
State aid	362,633	-	362,633
Federal	743,252	-	743,252
Other	1,151,072	-	1,151,072
Prepaid expenses	83,829	-	83,829
Inventories	34,215	372	34,587
Restricted ISCAP assets:			
Investments	3,443,627	-	3,443,627
Accrued interest receivable	21,063	-	21,063
Capital assets, net of accumulated depreciation	2,174,718	-	2,174,718
Total assets	9,808,357	8,510	9,816,867
Liabilities			
Intergovernmental payable	10,663	-	10,663
ISCAP warrants payable	3,450,000	-	3,450,000
ISCAP accrued interest payable	18,813	-	18,813
Accounts payable	1,279,064	979	1,280,043
Accrued payroll	1,374,045	-	1,374,045
Other liabilities	27,361	-	27,361
Accrued compensated absences	102,653	-	102,653
Deferred revenue:			
Federal	136,370	-	136,370
Other	46,614	-	46,614
Long-term liabilities:			
Portion due or payable within one year:			
Early retirement obligation	76,974	-	76,974
Portion due or payable after one year:			
Early retirement obligation	163,969	-	163,969
Total liabilities	6,686,526	979	6,687,505

(Continued on next page)

LOESS HILLS AREA EDUCATION AGENCY 13

**Exhibit A
(Continued)**

**STATEMENT OF NET ASSETS
June 30, 2007**

	Governmental Activities	Business-Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 2,174,718	\$ -	\$ 2,174,718
Restricted for:			
Technology	226	-	226
Media materials	125,045	-	125,045
Special education instruction	103,797	-	103,797
Categorical aid carryover	3,082	-	3,082
Unrestricted	714,963	7,531	722,494
Total net assets	3,121,831	7,531	3,129,362
 Total liabilities and net assets	 \$ 9,808,357	 \$ 8,510	 \$ 9,816,867

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 4,051,363	\$ 287,167	\$ 2,949,019
Student support services	8,119,909	378,334	5,491,935
Instructional staff support services	4,702,015	354,496	2,218,912
General administration	2,504,437	-	175
Business administration	584,288	48,925	-
Plant operations and maintenance	756,606	-	-
Central and other support services	1,490,105	-	694,793
Pass through to LEAs	1,671,166	-	1,671,166
Total governmental activities	23,879,889	1,068,922	13,026,000
Business-type Activities			
Non-instructional programs			
Enterprise fund	8,886	7,016	-
Total business-type activities	8,886	7,016	-
Total	\$ 23,888,775	\$ 1,075,938	\$ 13,026,000

General revenues:

- Property taxes
- State aid
- Juvenile home reimbursement
- Unrestricted investment earnings
- Total general revenues**

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (815,177)	\$ -	\$ (815,177)
(2,249,640)	-	(2,249,640)
(2,128,607)	-	(2,128,607)
(2,504,262)	-	(2,504,262)
(535,363)	-	(535,363)
(756,606)	-	(756,606)
(795,312)	-	(795,312)
-	-	-
(9,784,967)	-	(9,784,967)
-	(1,870)	(1,870)
-	(1,870)	(1,870)
(9,784,967)	(1,870)	(9,786,837)
4,346,752	-	4,346,752
5,203,187	-	5,203,187
387,162	-	387,162
238,774	-	238,774
10,175,875	-	10,175,875
390,908	(1,870)	389,038
2,730,923	9,401	2,740,324
\$ 3,121,831	\$ 7,531	\$ 3,129,362

LOESS HILLS AREA EDUCATION AGENCY 13**BALANCE SHEET - GOVERNMENTAL FUNDS****June 30, 2007**

	General	Special Revenue	Total
Assets			
Cash and pooled investments	\$ 1,662,964	\$ -	\$ 1,662,964
Unamortized premium on investments	5,363	-	5,363
Receivables:			
Accounts	21,824	103,797	125,621
State aid	362,633	-	362,633
Federal	743,252	-	743,252
Other	1,150,562	510	1,151,072
Due from other funds	45,891	-	45,891
Prepaid expenses	83,829	-	83,829
Inventories	34,215	-	34,215
Restricted ISCAP assets:			
Investments	3,443,627	-	3,443,627
Accrued interest receivable	21,063	-	21,063
Total assets	\$ 7,575,223	\$ 104,307	\$ 7,679,530

See Notes to Financial Statements.

Exhibit C

	General	Special Revenue	Total
Liabilities and Fund Balances			
Intergovernmental payable	\$ -	\$ 10,663	\$ 10,663
ISCAP warrants payable	3,450,000	-	3,450,000
ISCAP accrued interest payable	18,813	-	18,813
Accounts payable	1,278,962	102	1,279,064
Accrued payroll	1,328,101	45,944	1,374,045
Accrued compensated absences	102,653	-	102,653
Other liabilities	102,628	1,707	104,335
Due to other funds	-	45,891	45,891
Deferred revenue:			
Federal	136,370	-	136,370
Other	46,614	-	46,614
Total liabilities	6,464,141	104,307	6,568,448
Fund balances:			
Reserved for:			
Technology	226	-	226
Categorical aid carryover	3,082	-	3,082
Inventories and prepaid expenses	118,044	-	118,044
Media materials	125,045	-	125,045
Unreserved:			
Designated for subsequent year's expenditures	48,320	-	48,320
Undesignated	816,365	-	816,365
Total fund balances	1,111,082	-	1,111,082
Total liabilities and fund balances	\$ 7,575,223	\$ 104,307	\$ 7,679,530

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2007**

Total governmental fund balances (page 16)	\$ 1,111,082
---------------------------------------------------	---------------------

***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$4,602,698 and the accumulated depreciation is \$2,427,980.

2,174,718

Long-term liabilities, including early retirement obligation, are not due and payable in the current period and, therefore, are not reported in the government funds.

(163,969)

Net assets of governmental activities (page 14)

\$ 3,121,831

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2007**

	General	Special Revenue	Total
Revenues:			
Local sources	\$ 8,107,793	\$ 214,983	\$ 8,322,776
State sources	6,469,778	405,069	6,874,847
Federal sources	9,073,174	-	9,073,174
Total revenues	23,650,745	620,052	24,270,797
Expenditures:			
Current:			
Instruction	3,491,172	571,748	4,062,920
Student support services	8,169,591	-	8,169,591
Instructional staff support services	4,723,738	2,191	4,725,929
General administration	2,503,599	21,106	2,524,705
Business administration	581,678	-	581,678
Plant operations and maintenance	718,401	-	718,401
Central and other support services	1,499,103	-	1,499,103
Pass through to LEAs	1,671,166	-	1,671,166
Total expenditures	23,358,448	595,045	23,953,493
Excess of revenues over expenditures	292,297	25,007	317,304
Other financing sources (uses):			
Transfers in	25,007	-	25,007
Transfers out	-	(25,007)	(25,007)
Total other financing sources (uses)	25,007	(25,007)	-
Excess of revenues and other financing sources (uses) over expenditures	317,304	-	317,304
Fund balance, beginning of year	793,778	-	793,778
Fund balance, end of year	\$ 1,111,082	\$ -	\$ 1,111,082

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007**

Net change in fund balances - Total governmental funds (page 18) **\$ 317,304**

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 267,953	
Depreciation expense	(290,744)	(22,791)

The accrual for the long-term portion of the early retirement obligation is not due in the current period and, therefore, is not reported in the governmental fund. However, such accrual is recorded as an expense in governmental activities. The early retirement obligation decreased in the current year as follows:

Early retirement obligation year ended 6/30/06	260,364	
Early retirement obligation year ended 6/30/07	(163,969)	96,395

Net change in assets of governmental activities (page 15) **\$ 390,908**

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13**Exhibit G****STATEMENT OF NET ASSETS - PROPRIETARY FUND**
Year Ended June 30, 2007

	<u>Enterprise Fund</u>
Assets	
Cash and cash equivalents	\$ 8,138
Inventories	372
Total assets	<u>8,510</u>
Liabilities	
Accounts payable	<u>979</u>
Net Assets	
Unrestricted	<u>\$ 7,531</u>

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13**Exhibit H****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUND
Year Ended June 30, 2007**

	Enterprise Fund
Operating revenues:	
Charges for service	\$ 7,016
Operating expenses:	
Cost of merchandise sold	8,886
Net (loss)	(1,870)
Net assets, beginning of year	9,401
Net assets, end of year	<u>\$ 7,531</u>

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13**Exhibit I****STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year Ended June 30, 2007**

	Enterprise Fund
Cash Flows from Operating Activities	
Cash received from users	\$ 7,016
Cash paid to suppliers	(8,537)
Net cash (used in) operating activities	<u>(1,521)</u>
Cash, beginning of year	<u>9,659</u>
Cash, end of year	<u><u>\$ 8,138</u></u>
 Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (1,870)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Decrease in inventories	363
Decrease in accounts payable	<u>(14)</u>
Net cash (used in) operating activities	<u><u>\$ (1,521)</u></u>

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loess Hills Area Education Agency 13 (the Agency) is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 31 school districts and private schools in a seven-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity:

For financial reporting purposes, the Agency has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Agency has no component units which meet the Governmental Accounting Standards Board (GASB) criteria.

Basis of Presentation:

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

- The General Fund is the general operating fund of the Agency. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instruction, support, and other costs.
- The Special Revenue Fund is used to account for programs where the Agency employs teachers to provide instruction to juvenile home program students and to special education pupils. The actual costs of providing instructional services to the pupils are reimbursed by the State of Iowa for the juvenile home program and are billed to the individual school districts for special education instruction.

The Agency reports the following major proprietary fund:

- The Agency's proprietary fund is the Enterprise Fund. This fund is used to account for activities that are performed as a service to staff and consists primarily of vending machine operations.

The Agency also serves as custodian of certain funds on behalf of other organizations. Such amounts are maintained in fiduciary funds which, because they are not direct assets or liabilities of the Agency, are not reported in the accompanying financial statements.

Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Government fund expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences, are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Proprietary fund of the Agency applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's enterprise fund is charged to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Fund Equity:

Cash, Pooled Investments and Cash Equivalents – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust (ISJIT) which is valued at amortized cost which approximates fair value.

All short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Inventories – Inventories are stated at cost using the first-in, first-out (FIFO) method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption. The amounts on hand at the financial statement date are reflected in the balance sheet as an asset.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (continued):

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities column in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 5,000
Buildings	20,000
Improvements other than buildings	20,000
Furniture and equipment	5,000
Media collection	5,000

Additionally, the entire media collection will be considered in aggregate.

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Improvements other than buildings	20-50
Furniture and equipment	5
Media collection	5-15

Accrued Payroll and Related Expenses - Payroll and related expenses for certified staff and other employees with annual employment contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Deferred revenue represents an excess of cash advances by the funding sources over accrued expenditures at year end.

Accrued Compensated Absences - Agency employees accumulate a limited amount of earned-but-unused vacation and sick leave hours for subsequent use, or in the case of vacation leave, for payment upon resignation, retirement, death or termination. The liability for compensated absences for accrued vacation has been computed based on current rates of pay in effect at June 30, 2007. Agency policy requires that the carryover of accrued vacation leave must be used by June 30 of the ensuing fiscal year, and has therefore recorded the entire amount as a current liability in the general fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (continued):

Long-term Obligation – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

NOTE 2. CASH AND POOLED INVESTMENTS

The Agency's deposits in banks at June 30, 2007 were entirely covered by Federal depository insurance or by the State sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency has investments in the Iowa Schools Joint Investment Trust Diversified Portfolio that are valued at an amortized cost of \$1,475,095 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

Credit risk - The investment in the Iowa Schools Joint Investment Trust is rated AAA by Moody's Investors Service.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 20,394	\$ -	\$ -	\$ 20,394
Total capital assets, not being depreciated	20,394	-	-	20,394
Capital assets being depreciated:				
Improvements other than buildings	11,074	-	-	11,074
Buildings and improvements	1,471,241	-	-	1,471,241
Furniture and equipment	470,154	15,093	25,684	459,563
Media collection	2,543,571	241,334	245,035	2,539,870
Vehicles	122,852	11,526	33,822	100,556
Total capital assets, being depreciated	4,618,892	267,953	304,541	4,582,304
Less accumulated depreciation for:				
Improvements other than buildings	11,074	-	-	11,074
Buildings and improvements	698,027	36,423	-	734,450
Furniture and equipment	415,007	21,005	25,684	410,328
Media collection	1,230,672	220,008	245,035	1,205,645
Vehicles	86,997	13,308	33,822	66,483
Total accumulated depreciation	2,441,777	290,744	304,541	2,427,980
Total capital asset being depreciated, net	2,177,115	(22,791)	-	2,154,324
Governmental activities - capital assets, net	\$ 2,197,509	\$ (22,791)	\$ -	\$ 2,174,718

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Instructional staff support services	\$ 223,181
General administration	9,127
Business administration	2,610
Plant operations and maintenance	49,731
Central and other support services	<u>6,095</u>
Total governmental activities depreciation expense	<u>\$ 290,744</u>

NOTE 4. CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year
Early retirement obligation	<u>\$ 367,070</u>	<u>\$ -</u>	<u>\$ 126,127</u>	<u>\$ 240,943</u>
Portion due within one year				<u>76,974</u>
Portion due after one year				<u>\$ 163,969</u>

Early Retirement Obligation – Before fiscal year 2005/06 the Agency had a Board policy that allowed Agency employees who elect early retirement to be eligible to receive health insurance through the Agency for the lesser of five years, or when the retiree became eligible for Medicare. A liability has been recorded in the governmental funds representing the Agency's commitment to fund the health insurance premiums for these individuals. This liability has been computed based on actuarially based rates which estimate that retiree health care costs would increase 11% in fiscal 2009, decreasing gradually to 4.75% in fiscal 2017 and thereafter. In the Government-wide financial statements, the long-term early retirement obligation is reported as a liability in the governmental activities column in the statement of net assets. The Agency no longer has an Early Retirement policy.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. OPERATING LEASES

The Agency has leased various facilities within the area and also has a rental agreement for a copy machine. These leases have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2008 and June 30, 2011. Certain leases are renewable for additional periods and most are noncancelable. Certain leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2007.

Year Ending June 30,	Total
2008	\$ 106,612
2009	81,402
2010	35,436
2011	6,578
2012	-
Total	\$ 230,028

The total rental expenditures for the year ended June 30, 2007 for all operating leases were \$115,106.

NOTE 6. IOWA SCHOOLS CASH ANTICIPATION PROGRAM (ISCAP)

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and are provided monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is trustee of the program. These accounts are reflected as restricted assets on the Statement of Net Assets and Balance Sheet. A summary of the Agency's participation in ISCAP as of June 30, 2007 is as follows:

Series	Final Warrant Date	Final Warrant Maturity	Invest- ments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-2007A	6/28/2006	6/28/2007	\$ -	\$ -	\$ -	\$ -
2006-2007B	1/26/2007	1/25/2008	947,577	20,317	950,000	18,177
2007-2008A	6/28/2007	6/27/2008	2,496,050	746	2,500,000	636
			\$ 3,443,627	\$ 21,063	\$ 3,450,000	\$ 18,813

NOTES TO FINANCIAL STATEMENTS

NOTE 6. IOWA SCHOOLS CASH ANTICIPATION PROGRAM (ISCAP) (Continued)

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-2007A	\$ -	\$ 3,150,000	\$ 3,150,000	\$ -
2006-2007B	-	750,000	750,000	-
	\$ -	\$ 3,900,000	\$ 3,900,000	\$ -

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-2007A	4.50%	5.68%
2006-2007B	4.25%	5.32%
2007-2008A	4.50%	5.46%

The net interest earned or due from the series is recorded as a revenue or an expenditure at maturity.

NOTE 7. PENSION AND RETIREMENT BENEFITS

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$652,492, \$624,098 and \$608,604, respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years nor have there been any significant changes in coverage.

LOESS HILLS AREA EDUCATION AGENCY 13

REQUIRED SUPPLEMENTARY INFORMATION

LOESS HILLS AREA EDUCATION AGENCY 13

**STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND
CHANGES IN BALANCES -- BUDGET AND ACTUAL --**

ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND

Required Supplementary Information

Year Ended June 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
Revenues:			
Local sources	\$ 8,322,776	\$ 7,016	\$ 8,329,792
State sources	6,874,847	-	6,874,847
Federal sources:	9,073,174	-	9,073,174
Total revenues	24,270,797	7,016	24,277,813
Expenditures/Expenses:			
Current:			
Instruction	4,062,920	-	4,062,920
Student support services	8,169,591	-	8,169,591
Instructional staff support services	4,725,929	-	4,725,929
General administration	2,524,705	-	2,524,705
Business administration	581,678	-	581,678
Plant operations and maintenance	718,401	-	718,401
Central and other support services	1,499,103	-	1,499,103
Pass through to LEAs	1,671,166	-	1,671,166
Non instructional programs	-	8,886	8,886
Total expenditures/expenses	23,953,493	8,886	23,962,379
Excess (deficiency) of revenues over (under) expenditures/expenses	317,304	(1,870)	315,434
Balance, beginning of year	793,778	9,401	803,179
Balance, end of year	\$ 1,111,082	\$ 7,531	\$ 1,118,613

See accompanying Independent Auditor's Report.

Budget		Final to Actual
Original	Final	Variance
\$ 8,646,717	\$ 10,241,745	\$ (1,911,953)
7,286,674	6,817,815	57,032
10,531,045	9,175,693	(102,519)
26,464,436	26,235,253	(1,957,440)

5,544,475	4,472,556	409,636
8,496,974	8,184,104	14,513
4,665,655	5,970,727	1,244,798
1,808,468	2,931,086	406,381
822,386	637,647	55,969
612,057	758,831	40,430
2,023,529	1,660,484	161,381
1,690,401	1,682,233	11,067
50,000	50,000	41,114
25,713,945	26,347,668	2,385,289

750,491	(112,415)	427,849
469,551	803,179	-
\$ 1,220,042	\$ 690,764	\$ 427,849

LOESS HILLS AREA EDUCATION AGENCY 13
June 30, 2007

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents function disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

OTHER SUPPLEMENTARY INFORMATION

LOESS HILLS AREA EDUCATION AGENCY 13

**REVENUE BY SOURCE - ALL GOVERNMENT FUND TYPES
For The Last Five Years**

	Modified	
	Years Ended	
	2007	2006
Local Sources	\$ 8,322,776	\$ 6,883,944
State Aid	6,874,847	6,250,590
Federal Aid	9,073,174	9,281,865
Total	\$ 24,270,797	\$ 22,416,399

Schedule 1

Accrual Basis		
June 30,		
2005	2004	2003
\$ 6,731,548	\$ 6,431,556	\$ 5,328,358
6,180,692	6,046,483	6,663,239
8,520,157	7,782,212	6,008,960
<u>\$ 21,432,397</u>	<u>\$ 20,260,251</u>	<u>\$ 18,000,557</u>

LOESS HILLS AREA EDUCATION AGENCY 13

EXPENDITURES BY FUNCTION -- ALL GOVERNMENT FUND TYPES For the Last Five Years

	Modified	
	Years Ended	
	2007	2006
Expenditures:		
Instruction	\$ 4,062,920	\$ 4,037,974
Student support staff	8,169,591	7,789,812
Instructional staff support services	4,725,929	3,670,284
General administration	2,524,705	2,542,712
Business administration	581,678	641,391
Plant operations and maintenance	718,401	698,930
Central and other support services	1,499,103	1,382,150
Pass through to LEAs	1,671,166	1,690,401
Subtotal	23,953,493	22,453,654
Other financing uses - Reversion to State Treasurer	-	-
Total	\$ 23,953,493	\$ 22,453,654

Schedule 2

Accrual Basis		
June 30,		
2005	2004	2003
\$ 4,469,539	\$ 4,247,491	\$ 2,432,302
7,946,730	7,856,006	7,713,456
3,866,982	3,582,830	3,445,227
1,477,435	1,485,552	1,516,959
706,886	603,015	587,921
529,432	546,341	522,646
933,036	969,688	1,030,242
1,598,269	1,277,296	907,426
21,528,309	20,568,219	18,156,179
-	-	666,285
\$ 21,528,309	\$ 20,568,219	\$ 18,822,464

**CHANGES IN ASSETS AND LIABILITIES --
FIDUCIARY FUND TYPE - AGENCY FUND
Year Ended June 30, 2007**

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 576,953	\$ 2,269,183	\$ 1,588,160	\$ 1,257,976
Prepaid Expense	404	-	404	-
Other receivable	-	657	-	657
Total assets	<u>\$ 577,357</u>	<u>\$ 2,269,840</u>	<u>\$ 1,588,564</u>	<u>\$ 1,258,633</u>
Liabilities				
Accounts payable	\$ 136	\$ 2,307,979	\$ 1,565,864	\$ 742,251
Deposits held in custody for others/ deferred revenue	577,221	2,269,126	2,329,965	516,382
Total liabilities	<u>\$ 577,357</u>	<u>\$ 4,577,105</u>	<u>\$ 3,895,829</u>	<u>\$ 1,258,633</u>

LOESS HILLS AREA EDUCATION AGENCY 13**Schedule 4****DEPARTMENT OF PUBLIC HEALTH GRANTS
Year Ended June 30, 2007**

Comprehensive Substance Abuse Prevention	\$ 160,944
Prevention Through Mentoring	32,956
Youth Mentoring Program	45,993
Youth Development Project	29,691
Drug and Violence Prevention	54,951
Total direct expenditures	324,535
Distribution of delivery and central support expenditures	5,099
Distribution of administration and plant operations and maintenance	16,437
Total expenditures	346,071
Phase II Funding	1,986
Funding received or due from Department of Public Health	317,269
Expenditures paid from Agency General Funds and Conference Revenues	\$ 26,816

LOESS HILLS AREA EDUCATION AGENCY 13

Schedule 5

**DEPARTMENT OF HUMAN SERVICES GRANTS
Year Ended June 30, 2007**

School Based Supervision Programs:

Revenue:

Juvenile Court Services	\$	66,096	
Juvenile Court Services Accrual at 6/30/07		123,450	
Local School District		212,377	
Total revenue			\$ 401,923

Expenditures

Direct expenditures		385,612	
Indirect cost		16,311	
Total expenditures			401,923

\$ -

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Education of Handicapped Act (EHA) Part B: 94-142:			
Special Education - Grants to States (IDEA, Part 3) -			
Early Childhood Education for the Handicapped	84.027*	060713	\$ 4,897,761
Early Childhood Education for the Handicapped	84.027*	7KB2-13	1,671,166
Special Education - Preschool Grants (IDEA			
Preschool) - Section 619, Ages 3-5	84.173	06619-13	287,409
Special Education - Grants for Infants and Families			
with Disabilities - 94-142 Part C:			
IDEA, Part C, Infants and Toddlers	84.181	C06-13	214,380
Special Education - Grants to States (IDEA, Part 3) -			
Miscellaneous 94-142:			
Diagnostic Evaluation Program	84.027*	5K71	12,098
Supplemental Support Services	84.027*	6K72-13	206,793
Iowa Assistive Tech Text Reader/Planning Group Proj	84.027*	41407	10,854
Parent Educator Project Parent Surveys	84.027*	79307	4,300
Parent Educator Project	84.027*	67413	80,884
Para-Educator Project	84.027*	6K76-13	14,648
Mediation Training & Conflict Resolution	84.027*	6K75-13	11,494
Instructional Decision Making	84.027*	6K79-13	58,223
Indicator 13 Transition Project	84.027*	23007	10,149
IEP Results Work Group	84.027*	070042	350
Model Schools and Successful Practices Network Initiative	84.027*	6K70-13	527,842
Every Child Reads 3 to 5	84.027*	6K70-78-13	5,743
Alternate Assessment State Advisory Committee	84.027*	070064	175
Early Head Start Pilot Initiative	84.213C		36,527
English Language Learner Training/ESL Character Ed	84.215	30107	5,000
Iowa Quality PreSchool Standards	84.323	G-7P13-13	18,400
Reading First	84.357		45,229
Title 1 Part B Reading First	84.357	93006	11,583
Title III ELL/LEP	84.365		95,776
Every Learner Inquires Initiative	84.367	26307	15,649
Technology Literacy Challenge/E2T2	84.318	95706	175,233
Evaluating State Education Technology Programs	84.318		8,239
USDA Local Wellness Grant	10.555		1,000
Received from U. S. Department of Education:			
Fund for the Improvement of Education			
Earmark Grant Awards	84.215K		197,247
Total Department of Education			8,624,152

(Continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Health and Human Services:			
Passed-Through Iowa Department of Public Health:			
Block Grants for Prevention and Treatment of			
Substance Abuse - Comprehensive Prevention	93.959	5887CPO9	\$ 148,020
Drug and Violence Prevention	84.186B	5887DV04	54,951
Passed-Through Iowa Department of Human Services:			
Medical Assistance Program -			
Title 19 Medicaid Reimbursement			
Title 19 Medicaid Reimbursement	93.778		43,768
Part C Infants and Toddlers Reimbursement	93.778		35,020
Wraparound Services for Children with			
Serious Emotional Disabilities	93.958	BDPS-05-064	50,056
Received from U.S. Department of			
Health and Human Services:			
Drug Free Communities Support	93.276		117,207
Total Department of Health and Human Services			449,022
Total Expenditures of Federal Awards			\$ 9,073,174

* Total expenditures for CFDA Number 84.027 were \$7,512,480.

Basis of Presentation – the Schedule of Expenditures of Federal Awards includes the federal grant activities of Loess Hills Area Education Agency 13 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Legal Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

LOESS HILLS AREA EDUCATION AGENCY 13

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Loess Hills Area Education Agency 13
Council Bluffs, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Loess Hills Area Education Agency 13 (the "Agency"), as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated November 26, 2007. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We identified no deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with US generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We noted no significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Agency's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency, and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Loess Hills Area Education Agency 13 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 26, 2007

LOESS HILLS AREA EDUCATION AGENCY 13

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors of
Loess Hills Area Education Agency 13
Council Bluffs, Iowa

Compliance

We have audited the compliance of Loess Hills Area Education Agency 13 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Agency's major federal programs are identified in Part 1 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Agency's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in the Agency's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, which adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control. We identified no deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control. We identified no significant deficiencies or material weaknesses in internal control over compliance.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 26, 2007

LOESS HILLS AREA EDUCATION AGENCY 13

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Part I: Summary of Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were disclosed by the audit.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings required to be reported by OMB Circular A-133, Section 510(a).
- (g) The major program was:
 - CFDA Number 84.027 – Special Education – Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Loess Hills Area Education Agency 13 qualified as a low-risk auditee.

Part II: Financial Statement Findings Section:

None.

Part III: Findings and Questioned Costs For Federal Awards:

None.

LOESS HILLS AREA EDUCATION AGENCY 13

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-07 Budget: Expenditures during the year ended June 30, 2007 did not exceed the amounts budgeted.
- IV-B-07 Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-07 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-07 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-07 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- IV-F-07 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-G-07 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.
- IV-H-07 Certified Annual Report: The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Loess Hills Area Education Agency 13 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 26, 2007